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| FSC-86-B | | 5/19/97 | |
| SUBJECT: Price Gap and Ceiling Strategies - June | | | |
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As a result of competitive promotional discounting activity, you are authorized to execute the following Price Gap and Ceiling Strategies.

DORAL Summer Defense Program

We have been informed of Brown & Williamson's aggressive pricing program on GPC which appears to be more widespread in some markets versus others.

Their overall strategy appears to be focused on the Price Gap between Marlboro and GPC. Therefore, during Marlboro price promotion periods, they increase their current discount values by an additional \$1.00

While overall our current Ceiling Strategy Guidelines remain intact, we will respond to GPC's program, where it is being implemented, with a "DORAL Summer Defense Program."

Listed below are the specifics to the program:

- Timing: 5/26/97 - 7/7/97
- Increased discounting activity should be on a store by store basis, versus a marketplace strategy, and only in accounts where the GPC Program is being implemented.

"Match Tactic for Tactic on":

- Discount Amount - up to, but not to exceed \$4.00 carton/40¢ pack in all outlets. If B&W is receiving a retail match, we should receive the same benefit/amount.

Example:

If B&W is paying retailer \$3.50 and the retailer is matching 50¢ for a total discount of \$4.00, we should receive the same benefit/amount.

- Display Presence - must be parity to GPC or better. If GPC is placing temporary displays, our requirement should be the same.
- Quantity - same "days supply" as GPC, but not to exceed six weeks DORAL volume.
- Signage/Pricing Communication - must be parity to GPC or better. Ensure maximum use of temporary pricing POS with "Special Offer" math.

e.g.: \$13.50 Normal Price
 (-) \$ 3.50 Discount
 \$10.00 Special Offer Price

- The DORAL Summer Defense Program does not affect your Military accounts. Continue your current strategy as outlined in FSC-11-A dated 1/14/97.
- MONARCH and BEST VALUE are not affected by this program. Continue to implement your current EDLP and Ceiling Strategy Guidelines.

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- To support this program, the appropriate 35¢/40¢ pack and \$3.50/\$4.00 carton DORAL price reduction, VPR and thermal-printed coupons will be available in Poquets/laptops on 5/26/97. Preprinted \$3.50 savings carton coupon, Item #511235 (SKU packing 500), will be the only preprinted coupon available.

In summary, we continue to believe our Ceiling Strategy Guidelines are on target to defend DORAL's volume base. However, from time to time it is necessary to respond to a competitor's program to ensure our volume base is not negated.

As a reminder, our DORAL Summer Defense Program is only authorized from 5/26/97 to 7/7/97 and only in markets/outlets where GPC is implementing their program.

Private Label Defense Program

- This GPC promotion could have a very negative impact on our Private Label volume. Therefore, in PL contracted accounts with this GPC promotion, you should make every attempt to implement a PL promotion for the month of June. The main source for this promotion's funding is through the accounts alliance accrual fund. Where funds permit, at minimum you should price PL at parity with the bought down GPC and preferably 5¢ per pack/50¢ per carton lower. As with DORAL, if the retailer is matching on the GPC promotion, PL should receive the same benefit/amount.

Full Price - Response B

We have been informed that Philip Morris will begin executing their quarter end discounting program beginning May 26, 1997.

- As a response to Philip Morris's quarter end promotional discounting efforts on Marlboro and Basic, you should execute "Response B" Full Price Gap strategy during June.
- In accounts where you are responding to B&W's GPC program with our "DORAL Summer Defense Program", it will be necessary to adjust Full Price Gap discounting values to account for the larger spread between Full Price and competitive Branded Savings during the same time period.
- Strive to ensure our Full Price brands receive same retailer match as GPC/DORAL, whenever possible.

Price communication is of critical importance to ensure proper execution of these promotional responses.

If you have questions or need clarification on this special program, contact your Region Sales Manager.

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